Shaping the 'new normal': An Economic Response to the Dual Crises of Covid-19 and Climate Emergency

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Introduction

The scale of the British state's economic response to the pandemic-induced downturn makes it clear that, temporarily at least, the Conservative government's antipathy towards economic interventionism and concerns over government debt have been shelved. In this context, the question is not one of the capacity to mobilise resources but rather the extent and character of the government intervention. The struggle to define the 'new normal' of the post-pandemic era has already begun.

Whatever 'new normal' emerges, it will be strongly shaped by the economic policy response to the Covid-19 crisis. The Conservatives' crisis response is intended to preserve (at great cost) the economic status quo for the post-pandemic world. This approach neglects the numerous parallel deep-seated pathologies characterising the UK economy. These include rising inequality, low productivity and investment, Brexit-related disruptions, and the need to decarbonise the economy by 45% in the current decade to meet obligations enshrined in the Paris Accord. With these deep-seated challenges in mind, the resources being mobilised during this downturn should not simply be focused on preserving the economic status quo, but rather situated within a broader strategy of transformation. This raises a series of key questions which will shape the UK economy for a generation. Can crisis interventions ensure people's livelihoods but also tackle other deep-seated challenges facing the UK economy? Can crisis interventions form part of a 'just transition' towards a greener economy?

Episodic capitalist crises present opportunities for radical transformation though, as 2008 shows, those opportunities can also slip by. The scale of interventionism in response to the Covid-19 crisis is, in fact, close to what is demanded by the climate crisis; we might see in that some partial cause for hope. This article sets out some key elements of the policy agenda for a crisis response that is attuned both to the short-term crisis of Covid-19 and the medium term crisis of climate. This agenda seeks to decarbonise the UK economy whilst remaining attentive to the need to ensure equitability and the provision of basic needs for both current and future generations. It is comprised of four primary elements. First, a green fiscal stimulus in the nascent low-carbon economy. Second, subjecting companies seeking state aid to an assessment of the economic, social and environmental impacts of that aid, in order to determine the extent and type of support offered. Third, when state support is extended, an equity stake is taken in companies and used to inaugurate a UK Sovereign Wealth Fund. Fourth, reversing welfare retrenchment in order to 'flatten the curve' and provide a safety net during the downturn and sustainability transition. These strategic and conditional interventions would ensure that public money is used to create value for the state and simultaneously promote a transition towards a more resilient and sustainable economy for the post-pandemic era.

Financing preservation rather than transformation

The fiscal and monetary expansion we've witnessed (which has included a blurring of the border between the two, something I have previously argued in favour of)[i] has allowed the government to introduce a startling repertoire of crisis management policies. This has revealed the paucity of the austerity logic and the blasé refrains of unaffordability directed at Green New Deal proposals in 2019. As Alyssa Battistoni notes in this issue, the proposed $2 trillion Green Stimulus package proposed by supporters of a GND in the US was called unthinkable until the Trump administration introduced a $2 trillion stimulus of its own (one which lacked any green credentials). Yet the fiscal expansion to date may only represent the opening salvo in attempts to stave off a capitalist crisis resulting from a virus for which there is no existent vaccine.

These remarkable crisis interventions have re-drawn the relationship between state and markets but, crucially, Sunak's policy package seeks to keep the 'old normal' on life support. It seeks to prop up zombie businesses through the pandemic-induced downturn via a generous helping of state aid. It constitutes the construction of an emergency 'bridge', hastily erected to rescue the existing economic model.

This is reminiscent of the crisis management approach taken in 2008, where the bailouts similarly sought to repair the pre-existing growth model rather than transform it based on a recognition of its evident failings.[ii] The indiscriminate and unconditional use of public money in that period of crisis management should alert us of the need to be more strategic now. As Christine Berry wrote in 2016, the state's majority stake in RBS was 'a golden opportunity to start taking control of our banks, building a system that really puts people and communities in the driving seat'.[iii] We can't let such golden opportunities slip through our hands.

Our economic model is already suffering from significant, deep-seated issues. The dismay at rising inequality, falling living standards, declining social mobility, and failing public services should alert policy-makers to the dangers of perpetuating the economic status quo. Poverty and inequality have both exacerbated, and been exacerbated by, the Covid-19 crisis. Both drive higher levels of ill-health, and the poorest suffer disproportionately from poor health and overcrowding in housing, which increase vulnerability. The wealthy are more likely to be able to work from home, preserving both their income and their health. Meanwhile, the low rate of statutory sick pay means low-paid workers may face a choice between going hungry and going to work even when suffering health concerns. As Thomas Piketty argues in *Capital and Ideology* (reviewed by David Cowan in this issue), ideology historically plays a crucial role in justifying and undermining 'inequality regimes'. The socio-economic turbulence created by the pandemic may test the public's acquiescence to an economic model that generates high levels of inequality and poverty.

Deep-seated economic pathologies surrounding the long-term slowdown of productivity gains, investment and economic growth, which have been periodically punctuated by 'bubbles', should further alert policy-makers to the dangers of rescuing business-as-usual. The expected disruptions of Brexit have suppressed growth forecasts further.

The environmental crisis only strengthens the economic headwinds facing the UK economy. Carbon emissions have dramatically reduced (by 58 per cent) in Europe during the lockdowns.[iv] This has prompted some on social media to rejoice that 'the earth is healing' as a result of the current economic slowdown, with some going further and declaring 'us' to be the virus. The Malthusian accusation that 'we' are the virus is, mercifully, belied by the fact that we (or at least most of us) are still here whilst various forms of ecological degradation are abating. It is, in fact, not the existence of 'us' *per se* but rather the scale and character of economic activity which underpins the ecological crisis. We are living beyond the thresholds of planetary boundaries due to the normalised operations of various economic sectors. Accordingly, making the necessary 45% reductions to greenhouse gas emissions this decade, stipulated by the IPCC if we are to limit climate change,[v] entails fundamentally challenging entrenched patterns of production, trade, finance and distribution. As Jason Moore argued, it is a geological era better conceptualised as the 'Capitalocene' rather than the 'Anthropocene'.[vi]

If left unaddressed, the economy's ecological footprint will not only degrade numerous ecosystems but also trigger a series of economic convulsions that threaten people's livelihoods (and ultimately lives). As with Covid-19, this includes risks of shortages, disruptions to supply chains, the destruction of infrastructure, bankruptcies, the abrupt re-evaluation of asset prices, and financial disorder.

These deep-seated economic, ecological and social challenges intersect with broader philosophical questions about how we think about our economy and its purpose. Calls to eschew our obsession with economic growth have intensified recently, given its power to disguise unequal income distributions and unpaid work in the household as well as rationalise policies that exacerbate environmental degradation and societal wellbeing. Instead, we have heard calls to prioritise inter-connected social and environmental indicators. Kate Raworth's 'doughnut' conception of progress could guide our thinking on meeting basic needs within planetary boundaries, and has already been adopted by the City of Amsterdam.[vii] This is all the more salient because Covid-19 and the climate emergency both seem to result from an inimical relationship between economic systems and the natural world.[viii] As Cathy Elliott points out in this issue, we must disavow framings that see humans as separate from nature, recognising instead the need to work in harmony with ecosystems we are all part of. Challenging the dogmas of the pre-pandemic age would change how we think about (and re-cast our ambitions for) any future economic recovery.

The evident failings of the economic status quo imply that transformation, rather than preservation, would benefit the UK economy's transition to sustainability and resilience in the post-pandemic era. This, however, requires the government to contemplate not only fiscal and monetary expansion but also a willingness to engage in a *de facto* orchestration of macroeconomic change. If these systemic pathologies are ignored when devising policy responses, public money will be used in order to rescue an economic model which is only paralysed in the short-term but at risk of decline in the medium-term. This would be a costly mistake. In this crisis, a response is required which combines fiscal and monetary expansion with a strategic understanding of how pre-existing economic failings can be addressed through selective and conditional interventions.

Greening the crisis response

What, therefore, would the UK policy agenda look like if it were part of a strategy of just transition towards a sustainable and resilient economy?

(a) Green Fiscal Stimulus

After a series of missed opportunities, the time has arrived for investment in the nascent low-carbon economy. This includes investing in renewable energy production, the innovation and development of new low-carbon technologies, and the upgrading of infrastructure and production systems in the automotive, manufacturing, transport and service sectors. Investment in these industries – highlighted as strategically important in the recently revived Green New Deal and Green Industrial Revolution discourses[ix] – must be urgently coordinated by the Department of Business, Energy and Industry Strategy and a revamped Green Investment Bank.

A series of fiscal instruments could support innovation, infrastructural construction and growth in low-carbon sectors, whilst training and employing workers immediately will enable the schemes pertaining to this stimulus to mobilise at speed when lockdown restrictions are relaxed. The green industrial policies deployed by the German, Danish and South Korean governments in recent years could serve as useful prototypes.

In addition to their contribution to decarbonisation efforts, these industries also present an opportunity to create well-paid jobs and educational and training opportunities in technology development, manufacturing and construction.[x] These are 'jobs rich' projects compared to other industries currently seeking bailouts, and promise jobs in 'left behind' areas to boot, meaning that investment in these industries offer a better return for policymakers seeking to suppress levels of unemployment.[xi] The dual benefits of a 'green stimulus' are the reason why EU Commissioners and Environment Ministers across Europe have been so effusive in their support.[xii] Moreover, these projects could advance community energy projects and other decentralised forms of ownership models.

This of course entails the government accepting an entrepreneurial role. As Marianna Mazzucato has demonstrated, the state long played a greater role in the innovation that underpins commercial profits than is widely appreciated, and now it must accept a leading role in constructing a greener and more inclusive wave of growth.[xiii] If it were to do so, it would be likely to swiftly encounter a 'crowding in' of private investment that is currently dormant.

A transformational green stimulus should thus be a centrepiece of the policy response. It promises to create a new wave of jobs and industries whilst meeting the decarbonisation targets enshrined in the Paris Accord – targets intended to mitigate future crises with the disruptive potential of Covid-19.

(b) Greater conditionality of state support

Industries characterised by exploitation, extraction and pollution are using the pandemic to request government bailouts and the weakening of environmental and labour market regulations. Progressive governments must eschew 'Shock Doctrine' approaches and adopt a more selective and discerning position when offering support to private companies, based on a strict 'triple bottom line' assessment of a company's economic, social and environmental impacts. Subjecting companies to this assessment will guide policy-makers' thinking on whether companies ought to receive state support, the terms on which they are, and the form that state support should take. This calculi will lead to a more discriminatory approach to state subsidies. This may include companies being precluded from receiving state aid (e.g. if the company if registered in a tax haven), others receiving loans rather than subsidies, the staged phasing out of state support (allowing for a managed downsizing), or providing state aid on the proviso that specific business practices are changed (e.g. capping bonuses or dividends, employment guarantees, investment in low-carbon technologies).

The adoption of this principle has already been hinted at by Andrew Bailey, the new Governor of the Bank of England, when asked about the possibility of excluding fossil fuel assets from the Bank's future bond purchases. He told a Treasury Select Committee in March 2020 that there is 'a very strong argument' for recognising the climate-related financial risks in Central Bank policy-making and altering the composition of the Bank's asset portfolio, and that he intended to make it 'a priority'.[xiv] It remains to be seen whether future rounds of quantitative easing match this rhetoric, but it may indicate that the adherence to the principle of 'market neutrality' - whereby asset purchases conform to the investment preferences of the capital markets despite the environmental consequences – is being challenged on Threadneedle Street.

There is a need to prioritise certain forms of economic activity over others, as only some industries will be able to lead a sustainable recovery. Yet, the employment and public goods provided by companies that cannot do so must be acknowledged too. Accordingly, bailout decisions must be made in the knowledge that a just transition cannot be *immediate* but *phased*. The restructuring or downscaling of jobs-rich but unsustainable sectors cannot exceed the speed of expansion of the low-carbon economy if the provision of basic needs, livelihoods and social justice is to be ensured.

(c) Establishing a UK sovereign wealth fund

The practice of distributing unconditional subsidies at great cost to the taxpayer must be consigned to history. The 'no strings' approach to the 2008 crisis was met with huge public outcry, allowed the discredited economic status quo to remain intact, and set the scene for austerity rhetoric subsequently. This time, where state support is offered, taxpayer money must be used to take an equity stake in the ailing companies. Purchasing shares will allow the state to gain real value from its use of public money, thereby allowing the state to recoup its investment when businesses return to profitability and offering a revenue stream thereafter. The shares purchased would inaugurate a new UK sovereign wealth fund (the holdings of which could swiftly be diversified to include non-UK companies in order to mitigate risk) which will create the sort of shareholder value that other countries (most notably Norway) have historically benefitted from. This constitutes a new form of government revenue for the 2020s that bolsters state capacity, mitigates the need for post-pandemic austerity, and democratises the national economy.

Moreover, this opportunity avails itself at a time when government borrowing is relatively inexpensive. The UK government can issue 10-year bonds at a yield of 0.5 per cent (even less when factoring in inflation) which, combined with the reduction in share prices, makes the current moment opportune for asset purchasing. As Lonergan and Blyth note, 'by issuing debt when interest rates are so low and, in effect, buying assets at very cheap prices, in the medium-term, the state will simultaneously ensure businesses survive, workers keep their jobs, and the state emerges an owner of significant assets'.[xv]

The part-ownership of organisations in a democracy may also shift our understanding of what business practices in those organisations the citizenry is willing to tolerate. Potentially, it represents a further policy tool for the state to show leadership on transforming the national economy. This may entail the state exercising its shareholder influence to advance decarbonisation efforts or address other deep-seated issues facing the UK economy. These greater steering powers could help ensure UK businesses become part of establishing a new social contract for the post-pandemic age.

(d) Welfare renewal

It has become clear in recent weeks that a country's capitalist model is a key mediating factor in 'flattening the curve', and that a lockdown cannot be effectively or fairly enforced without the extension of income protection and access to other benefits where necessary. This has reinvigorated debate around welfare provision after decades of austerity. As Peter Sloman points out, the deeper the economic crisis becomes, the more pressure seems likely to build for some form of Universal Basic Income to sit, most probably, alongside other conditional benefits.

Lyn Brown suggests in this issue that Labour should 'redouble our efforts to develop arguments and policies for universal public services across housing, childcare, social care and education, for a real living wage and big increases in child benefit', which should ultimately become a UBI for children. Spain has already declared an intention to introduce a UBI and other countries may soon follow suit. Whether or not we rejuvenate the welfare system along these lines, it is clear that resilience – for individual households and society as a whole – should become a far greater priority.

The welfare state's role as a set of 'macroeconomic stabilisers' also takes on greater significance in the context of an economic downturn and green transition. Shielding workers from the market volatility and disruptions pertaining to a low-carbon transition, via welfare provision, is essential to ensuring a modicum of equitability as well as the social sustainability of any green state project.[xvi]

Given the spread of Covid-19 and the ongoing climate crisis, a set of institutions which insulate the poorest from market forces (which surely includes strengthened welfare programmes) are a vital component of the social contract throughout the (potentially turbulent) transition to a post-pandemic and low-carbon economy.

The agenda outlined here is not by itself sufficient in ensuring a 'just transition' to a sustainable economy, which will require subsequent phases of political action and economic change, including policies designed to remedy the injustices of extractivism pertaining to green investment in the Global North.[xvii] Nor should it be considered a comprehensive progressive response to the downturn. We need better deals for 'key workers', 'rooted firms' and the 'foundational economy', an agenda which will be particularly salient given the recent public reappraisal of the value of their work; Will Brett argues in this issue that regional economic strategies and a social licensing regime will be key to achieving this, and the Foundational Economy Collective has released a plan for strengthening the post-pandemic foundational economy.[xviii]

Nonetheless, the agenda outlined here highlights four key components of a policy agenda that aligns responses to the dual crises of Covid-19 and climate at a moment of critical juncture in Britain's political economy. Furthermore, the outlined agenda, alongside new forms of bolstering state capacity (via covert monetary financing and a Sovereign Wealth Fund), signify a cumulative shift in Britain's political and economic landscape conducive to economic democratisation and a rebalancing of power away from prevailing social forces.

Conclusion

The panic of the present moment shouldn't disguise the fact that other economic challenges and priorities exist; not least the necessity of tackling the climate emergency. Simply financing the preservation of the economic status quo is dangerous. We need a more strategic and discerning use of the state's resources at a time of fiscal and monetary expansion to engender structural change.

A crisis management response based on this policy agenda would enable a phased and just transition to a different kind of post-pandemic economy. It is a response which aligns the protection of material livelihoods today, the creation of value for the state, and the promotion of more sustainable jobs and economic activity in order to mitigate the climate crisis. Moreover, the agenda is complementary with, and helps establish the political-economic conditions for, a new and more ambitious economic programme in the aftermath of the pandemic.

The Labour Party will be well aware that the mistakes of the 2008 crisis response cannot be repeated. Progressive parties must now explicitly recognise the failings of the 'old normal' and make the case that fiscal expansion needs to be paired with a transformative agenda. The struggle to define the 'new normal' is already underway.

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Endnotes

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